Urban Taskforce
AUSTRALIA

Review of developer charges for metropolitan water agencies

Submission to the Independent Regulatory and Pricing Tribunal

Submission prepared by the Urban Taskforce 31 January 2008

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The **Urban Taskforce** is an industry organisation representing Australia's most prominent property developers and equity financiers. Our membership also includes key infrastructure providers, economists, planners, architects and lawyers involved in property development. We provide a forum for people involved in the development and planning of the urban environment to engage in constructive dialogue with both government and the community.

Members of the Urban Taskforce are involved in both greenfield and brownfield development.

Executive Summary

- Sydney's population is anticipated to grow by 1.1 million people between 2004 and 2031, from a current population of 4.2 million to 5.3 million by 2031.
- This means Sydney will need 640,000 new homes, 500,000 more jobs, at least 7,500 hectares of extra industrial land, 6.8 million square metres of additional floor space and a million square metres of additional retail space. If these goals are not met there will be severe social and economic consequences for Sydney.
- In October 2007, BIS Shrapnel found that Australia's housing needs have risen to a new record high of 182,000 new dwellings per annum, substantially above the 151,000 new dwellings actually commenced in 2006/07. BIS Shrapnel has also concluded that, in the NSW market, supply will fall short of demand in both 2008 and 2009.
- The failure of the market to function properly is directly attributable to high flat (per lot/unit) infrastructure charges and very heavy over-regulation.
- The failure for the market to meet underlying demand is an issue both in relation to greenfield and brownfield locations. The ability for home buyers to pay is constrained by their borrowing capacity which, in turn, is constrained by their income.
- High government infrastructure charges and costs imposed by a heavily regulated market (through limitations, the supply of land due to zoning and prescriptive and expensive aesthetic design rules) force up the costs of new housing, beyond the reach of potential homebuyers. As a result, homebuyers are unable to pay more, and developers are unable to lower costs to meet the demand.
- The average market price for a fully-serviced 450 square metre residential lot in the growth centres is $300,000. A developer would make no money from this transaction – they would actually have to toss in $2,500 of their own money for each lot to make the whole thing work.
- In some areas profitable development of lots may be possible, but there is question as to how many lots are likely to be released, given the relatively modest profits versus the risk of the project, and the returns available on alternative projects elsewhere in Australia.
- There is an important public interest in encouraging development in greenfield and brownfield development. The current formula and philosophy underlying the water utility developer charges fails to recognise this by assuming the production of new property assets is a matter of private interest. The formula incorrectly assumes that if private players are unable to develop because costs are too high there is no loss to the community as a whole.
- The water utility developer charges, together with other government developer charges, is pricing many home projects out of the market – and capital has been moving away from Sydney towards more attractive projects with higher rates of return elsewhere in Australia.

- Developer charges are not necessary to ensure the financial viability of servicing growth. In the event that some or all of the funds raised by developer charges can no longer be raised in this way, the shortfall will be made up by the contribution of water ratepayers generally.
- Developers and the people who purchase the property made available by developers are not "imposing costs on the system". Rather, they are fulfilling an important public policy goal. The "system" actually needs to be designed in such a way that there are sufficient incentives for private actors such as developers and property purchasers to make profitable decisions in their own interest, which in turn fulfils a public interest.
- Under current policy, the relative differences in the charge from area to area are unlikely to influence the decision by an individual developer to develop in one area over another. However, the presence of the charge can influence the decision to proceed, if the presence of the charges means there will be no acceptable rate of return for the developer's capital and risk.
- The costs of developer charges are not shared between landowners, developers and the eventual home/property owner. The only party in the transaction who bears the costs of high developer charges is the end user of the property (e.g. the home buyer). Of course, there is a ceiling for this price – the price of comparable homes in the western Sydney area. If the homes are going to be priced too high neither the original land owner nor the developer has to take a 'haircut' – the homes simply don't get built.
- For example, the Water DSP charge per lot in North Richmond is $3,646 and the corresponding sewerage charge is $7,194. If a homebuyer was able to afford to borrow the extra $10,840 then they will have to repay an extra $30,600 in loan repayments over the life of the loan, or an extra $85 a month.[1] The so-called 'postage stamp' water rate is equal to $40 a month. Effectively this homebuyer will be paying three times as much for their water usage, when compared to a home owner in established housing.

  This illustrates how the concept of 'postage stamp pricing' does not apply to homebuyers in greenfield areas, while it does apply to homebuyers of established housing in higher income areas. Given that this person is likely to be in a lower socio-economic status than many people in established housing, it is hardly equitable pricing of an essential service.
- If Sydney Water had not received any developer charges since 2000-01, annual prices for water and wastewater would be around two per cent higher than presently charged.
- The Urban Taskforce does not support changes that will generally increase levies or charges on the developments, or a significant portion of developments. For example, we do not believe that new apartment buyers in the Inner West, or Sydney South should be forced to pay more for the water (through a new DSP charge) than residents of a higher socio-economic status in more expensive pre-existing free-standing homes.
- We submit that the incorporation of all of the costs of growth into the postage stamp prices of all Sydney water users is a more equitable system of meeting these costs, removing the economic distortion that the charges create and facilitating the government's public policy objectives.
- We note that Sydney Water itself proposes "a cap or uniform reduction of developer charges in the new growth areas". If the IPART does not support our primary proposal (that the DSP charges be set at zero) then it is essential that the DSP charges be reduced, to ensure that development in greenfield areas is not discouraged by the charges. However, this should not be used as an excuse for increased charges on brownfield development.

[1] Calculated assuming an interest rate of 8.67 per cent and a 30 year repayment period. If the home buyer borrows $450,000 the monthly repayment would be $3,515 a month with a total nominal value of repayments of $1,265,400 over the life of the loan. If they borrowed $460,840 the monthly repayment rises to $3,600 a month, with total nominal repayments being $1,296,000. monthly repayment would be $3,515 a month with a total nominal value of repayments of $1,265,400 over the life of the loan. If they borrowed $460,840 the monthly repayment rises to $3,600 a month, with total nominal repayments being $1,296,000.

1. Introduction

This inquiry deals with the costs of providing new water infrastructure to meet the additional needs of Sydney's households and businesses. These costs arise from both population growth and demographic change.

In deciding who should pay for these costs, no-one is suggesting that Sydney Water should have to accept a loss, or the NSW Government having to step and provide subsidies from the State budget. The only question is what share of the costs of growth should be met by an up-front charge, and what share of the costs should be met from ongoing charges imposed through water rates.

The Urban Taskforce is arguing strongly against the status-quo.

This submission argues that the developer charges, including the water utility charges, cannot be set without a thorough understanding of the impact on the development process. In particular, this submission will show how infrastructure charges have put at risk important economic and social goals set for the metropolitan area by the NSW Government.

We favour a greater sharing by the community generally of the cost burden of new water utility infrastructure. We believe the current pricing places an unfair burden on that portion of the community who end up resident in new housing stock. That portion of the community are likely to be middle income earners (and in the case of renters resident in new investment properties) low income earners.

This submission will approach this issue by discussing:

- the social and economic needs of metropolitan NSW – as recognised and supported by the NSW government's own metropolitan strategy;
- the failure of the NSW market to respond to underlying demand with additional large scale dwelling construction;
- the wide-ranging imposition of up-front flat government charges that have distorted the operation of the market to prevent it meeting consumer demand; and
- the current regime of developer charges for metropolitan water agencies.

2. Social and economic needs of metropolitan NSW

Sydney's future social and economic growth needs are well described in many documents, not the least of which is the NSW Government's metropolitan strategy: *City of Cities*.

Sydney's population is anticipated to grow by 1.1 million people between 2004 and 2031, from a current population of 4.2 million to 5.3 million by 2031. This means Sydney will need:

- 640,000 new homes;
- 500,000 more jobs;
- at least 7,500 hectares of extra industrial land;
- 6.8 million square metres of additional floor space; and
- 4 million square metres of additional retail space.[2]

[2] The figure on retail floor space comes from the Urban Taskforce's policy submission *Getting Life's Essentials*. The NSW Government target is 3.7 million square metres, including the Central Coast.

Even if we have zero population growth over that time, that is, our births and migration equal deaths, we would still require 190,000 new homes in Sydney to respond to demographic changes where fewer people are living in each home.

Currently, 22 per cent of all households in Sydney are occupied by one person. By 2031, there are likely to be an additional 300,000 single person households in Sydney – representing 30 per cent of all households.

The trend to smaller households is partly driven by the ageing of the population, which tends to result in more single and two person households.

Increasing affluence and more single and young people living alone are also major contributors to the increased demand for housing.

With population growing to 5.3 million and average household sizes anticipated to fall from 2.65 to 2.36 persons per private dwellings by 2031, a total of 2.2 million homes will be required in Sydney.

The current number of homes is estimated at approximately 1.6 million, but a proportion of the total is always vacant or otherwise not available.

Making an allowance for this, and for residents of non-private dwellings (e.g. nursing and boarding homes), means the Government is planning for an additional 640,000 new homes to house a population that is growing and whose household dynamics are changing.

The government's plan for managing Sydney's growth centres coupled with the land release program provides for approximately 220,000 homes on the fringe areas of Sydney (one third). Approximately 420,000 new homes (two thirds) will therefore need to be constructed in existing suburbs.

If these goals are not met there will be severe social and economic consequences for Sydney.

3. The failure of the market

As a representative of Australia's most prominent developers of new communities and new properties, the Urban Taskforce is very conscious that potential homebuyers are being let down by the current system.

In October 2007, BIS Shrapnel found that Australia's housing needs have risen to a new record high of 182,000 new dwellings per annum, substantially above the 151,000 new dwellings actually commenced in 2006/07.

BIS Shrapnel concludes the low rate of dwelling construction relative to underlying demand has now become a factor in the outlook for inflation and interest rates. With rental markets tightening, growth in average rentals is accelerating and it's expected that this trend will continue into 2007/08, adding further pressure to inflation.

BIS Shrapnel has also concluded that, in the NSW market, supply will fall short of demand in both 2008 and 2009.

Why is the market moving to accommodate the underlying demand for new housing? We believe that the failure of the market to function properly is directly attributable to high flat (per lot/unit) infrastructure charges and very heavy over-regulation.

4. Infrastructure charges

In relation to the Sydney greenfield areas, the Urban Taskforce produced a report in September 2007 that helped explain why the market was not fully responding to underlying demand. Our report *What*

Infrastructure? revealed the cost of Western Sydney 'growth centre' infrastructure charges was to hit $14.1 billion. The report by the Urban Taskforce revealed that local council infrastructure contributions could add up to $8.5 billion, on top of $5.6 billion already imposed by the State Government, including water utility developer charges.

Following the release of our report in October 2007, the NSW Government announced a $25,000 per lot cut in growth centre infrastructure charges. As part of the announcement there was confirmation that an extra $2 billion of state infrastructure would be delivered at no cost to Western Sydney homebuyers.

However, there remain key issues with the government's policy approach.

4.1 Roll-out of policy framework in regional NSW

In October last year the government also announced that it would extend the growth centre developer charges methodology to all greenfield areas in NSW.

The new requirements mean that approval for a standard residential lot cannot be given by the local council unless the Department of Planning signs off on a financial contribution to transport, education, health and emergency services normally provided by the State. Previously these issues have been dealt with through negotiated voluntary agreements.

In many potential land release areas, the final sale value of a residential lot may be well below the $300,000 average sale price predicted in the Western Sydney growth centres. The viability of land release in these areas may be seriously undermined by an infrastructure charge that is set in isolation of market conditions and the final sale price of land.

4.2 Up-front payment

The new policy means that a developer will have to pay 25 per cent of the state and local charges up-front when a development application is granted. This could happen years in advance of an actual sale of land to home buyers.

The government had <u>not</u> deferred 75 per cent of the infrastructure cost as some have claimed - 75 per cent of the state infrastructure cost (excluding utility charges) had been deferred, but 25 per cent of the section 94 cost had been brought forward and, because of this, the reduction in the up-front burden is relatively modest ($10,000 per lot, out of a total cost of $53,000).

Furthermore, an up-front section 94 contribution discourages the current practice of contributions in-kind through voluntary arrangements. These are typically not available at the development application stage.

Normal practice in property development is to use the unimproved land as security for finance. Typically a loan-to-value ratio of 50-60 per cent is possible (as the land is not income-producing). This means a developer could expect, for $750,000 of land, to secure finance of around $375,000 to $450,000 to meet development costs. A developer reliant on this standard method of finance may have difficulty in raising funds to meet both project costs and government/utility levies.

4.3 Brownfield levies

The NSW Government has moved to introduce more onerous levies in brownfield areas.

Late last year and early this year the government introduced new levies for brownfield development under section 94A of the *Environmental Planning and Assessment Act*. The levies apply in Gosford, Liverpool, Newcastle and Parramatta councils. The new levies range from 2 to 4 per cent of project costs.

4.4 Impact of levies on feasibility

The failure for the market to meet underlying demand is an issue both in relation to greenfield and brownfield locations. The ability for home buyers to pay is constrained by their borrowing capacity which, in turn, is constrained by their income.

High government infrastructure charges and costs imposed by a heavily regulated market (through limitations, the supply of land due to zoning and prescriptive and expensive aesthetic design rules) force up the costs of new housing, beyond the reach of potential homebuyers. As a result, homebuyers are unable to pay more, and developers are unable to lower costs to meet the demand.

The cost of new land and housing is now unaffordable for a large segment of the potential first home buyers.

This is easily illustrated by a case study on feasibility in the growth centres. On average it costs the developer $300,500 to deliver a fully serviced residential lot to the market in Sydney's growth centres. Table 1 shows how this figure is calculated.

Table 1: Average costs faced by a developer to deliver a fully-serviced 450 square metre residential lot to home buyers in Sydney's growth centres.

Expense	**Cost per lot (450m²)**
Purchase of undeveloped land from the original owner	$50,000 (which is equivalent to $750,000 per hectare – the current market value for rural lifestyle land in the region)
An infrastructure contribution to the State Government	$23,000 (as per the government's announcement of 12 October 2007)
A section 94 contribution to pay for facilities provided by local councils	$30,000 (according to the government's announcement of 12 October 2007)
Developer charges imposed by utilities such as Sydney Water and Integral Energy and gas supplies	$20,000
Construction of internal infrastructure within the precinct (e.g. roads, footpaths, power lines, sewage, water, gas and civil earthworks)	$60,000
Holding costs (because it takes around 30 months from buying the undeveloped land to selling a finished serviced block): (debt and equity)	$65,000
Architects, planners, engineers and other consultants	$20,000
Sales and marketing	$12,000 (4 per cent – 2 per cent for sales commission and 2 per cent marketing costs)
Contingencies	$10,000
Stamp duty	$2,500
GST	$10,000
Total costs	**$302,500**

The average market price for a fully-serviced 450 square metre residential lot in the growth centres is $300,000. A developer would make no money from this transaction – they would actually have to toss in $2,500 of their own money for each lot to make the whole thing work. This simple equation is illustrated in table 2.

Table 2: Average profit for a developer on the sale of a fully-serviced 450 square metre residential lot in the growth centres.

Sale price of residential land	$300,000
Less developer's costs	$302,500
Profit (loss) to developer from the transaction	**($2,500)**

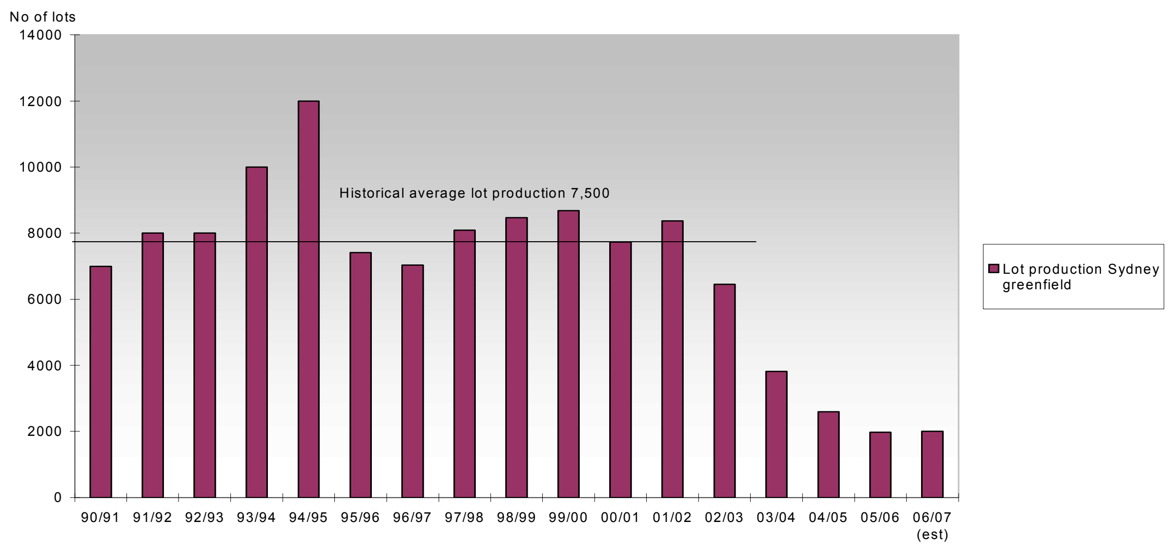
Of course, final sale price of the serviced lot is not uniform. For example, In the South West the average price is approximately $270,000, delivering a loss of $32,500 on the transaction for the developer for each lot.

In some areas profitable development of lots may be possible, but there is question as to how many lots are likely to be released, given the relatively modest profits versus the risk of the project, and the returns available on alternative projects elsewhere in Australia.

As the NSW Government's policy framework is dependent on private sector investment to develop land, it is essential that the private parties who are expected to deliver the serviced land to the home buyers are able to make a reasonable return on their investment. Without such a return, government 'land releases' will be land releases in name only.

Table 3 shows that dwelling commencements are close to their lowest level in NSW since data started being collected by the ABS in 1969. Greenfield production in Sydney has fallen to around 2,000 lots in 2006/07. Meanwhile the property industry in other States is booming – due to the higher returns developers are able to secure.

Table 3: Lot production from Sydney greenfield areas



Source: NSW Treasury presentation to industry 12 October 2007

NSW Treasury has said that metropolitan and regional srategies released by Government set out land supply targets that could come under pressure if current lot production rates prevail.[3]

[3] NSW Treasury Power Point Presentation 12/10/07

The State Government has set a benchmark of 55,000 zoned and serviced lots on the fringe of Sydney to encourage annual lot production above 10,000 each year. This is important to meet a dwelling target of 195,000 dwellings over the next 25 years to accommodate expected population growth.

NSW Treasury has also observed that increased dwelling production in both greenfield and brownfield areas is the main lever that the State has in influencing housing affordability.[4]

On 12 October 2007, the Minister for Planning said that: "The Government has set a target of raising the number of zoned and serviced lots from the current stock of almost 34,000 to 55,000 by 2009. Reducing costs for development is a key to meeting that goal."[5]

It is clear that there is an important public interest in encouraging development in greenfield and brownfield development areas. The current formula and philosophy underlying the water utility developer charges fails to recognise this by assuming the production of new property assets is a matter of private interest. The formula incorrectly assumes that if private players are unable to develop because costs are too high there is no loss to the community as a whole. This view is clearly mistaken.

5. Developer charges for metropolitan water agencies

The above discussion establishes that the water utility charge, together with other government developer charges, is pricing many home projects out of the market – and capital has been moving away from Sydney towards more attractive projects with higher rates of return elsewhere in Australia.

5.1 Why is the charge imposed?

IPART's stated objectives for these water utility developer charges are to:

- provide water agencies with a source of revenue to ensure that the provision of infrastructure to new development areas is financially viable.
- ensure that those who impose additional costs on the system bear those costs, rather than imposing those costs on the general customer base; and
- signal the cost of service provision in a particular location to facilitate efficient resource allocation decisions.

In relation to the first point, we concur with Sydney Water (in their submission of 21 December 2007, page 3) that the developer charges are not necessary to ensure the financial viability of servicing growth. In the event that some or all of the funds raised by developer charges can no longer be raised in this way, the shortfall will be made up by the contribution of water ratepayers generally.

The second point refers to "those who impose costs on the system". The need for the growth in metropolitan dwelling numbers is not a private commercial issue for a few developers; it is an important public interest objective of government policy. The reasons why this growth is essential to the public interest are described in section 2 of this submission, which is largely drawn, in turn, from the State Government's key metropolitan strategy.

Developers and the people who purchase the property made available by developers are not "imposing costs on the system". Rather, they are fulfilling an important public policy goal. The "system" actually needs to be designed in such a way that there are sufficient incentives for private actors such as developers and property purchasers to make profitable decisions in their own interest, which in turn fulfils a public interest.

An economic purist will scoff at this suggestion and say that the public interest is best served by least cost outcomes being achieved and the best way to achieve least cost outcomes is to remove cross

[4] Ibid.
[5] NSW Government Press Release – Office of the Premier; 12 October 2007.

subsidies. This argument may be worth debating if there was anything close to a free market operating in the metropolitan property sector, but the market is so heavily constrained by regulatory and bureaucratic controls that the argument is almost meaningless in this context.

The leads to the third point which says the water utility charge is there to signal the cost of service provision in a particular location to facilitate resource allocation decisions. Frankly, this is nonsense. Like it or not, resource allocation decisions are made as a consequence of the rezoning process – a regulatory, rather than market process. The costs of obtaining a rezoning dwarf differences in water utility developer charges. If there was no such thing as "rezoning" and the decisions to proceed to develop a land could be entirely market and cost driven, these principles would have more relevance.

Sydney Water (in page 4 of their submission) says that their developer charges alone are not likely to have a great influence on where development occurs. We agree with one qualification. Under current policy, the relative differences in the charge from area to area, is unlikely to influence the decision by an individual developer to develop in one area over another. However, the presence of the charge (as table 1 shows) can influence the decision to proceed, if the presence of the charges makes the difference between an acceptable rate of return for the developer's capital and risk.

Sydney Water (page 3 of their submission) says that the costs of developer charges are shared between landowners, developers and the eventual home/property owner.

We respectfully disagree. In the growth centres there is a floor price, under which existing land owners will not go - to $750,000 per hectare. This is the current market value for rural lifestyle land in the growth centres area. It would be irrational for a land owner to accept less than this figure for their property. The feasibility analysis in table 1 assumes this price for the cost of land acquisition.

In a market where the capital is free to move wherever it gets the best return, if sub-optimal returns are offered by greenfield development, then the capital simply will go elsewhere. There is no shortage of data to show that investment in greenfield development on the edges of Sydney has been lacklustre in recent years (see, for example, table 3). The suggestion that the developer may have to bear some of the cost would only apply if the developer was enjoying excessive profits, well above the level necessary to attract the capital. There is no evidence of this in relation to NSW greenfield development.

Hence the only party in the transaction who bears the costs of high developer charges is the property (e.g. the home buyer). Of course, there is a ceiling to how much the home buyer able to pay: the price of comparable homes; and the borrowing capacity of the potential home buyers. If the homes are going to be priced too high neither the original land owner nor the developer takes a 'haircut' – the homes simply don't get built.

5.2 Illusion of the 'postage stamp' pricing system

The system of uniform 'postage stamp pricing' is supposed to ensure that all consumers who use the same quantity or amount of services pay the same water and sewage charges irrespective of the location of their properties. However the imposition of the charge will have one of two possible impacts.

Firstly, it will prevent the production of new housing in greenfield areas – possibly impacting adversely on home affordability generally.

If this does not occur, then it will increase the cost of housing in the growth centres to home buyers. This means that they have to borrow more to purchase the property, which effectively means they are paying, on an ongoing basis, a lot more for their water supply than residents in established housing.

For example, the Water DSP charge per lot in North Richmond is $3,646 and the corresponding sewerage charges are $7,194. If a homebuyer was able to afford to borrow the extra $10,840 then they will have to repay an extra $30,600 in loan repayments over the life of the loan, or an extra $85 a month.[6] The so-called 'postage stamp' water rate is equal to $40 a month. So effectively, this homebuyer will be paying three times as much for their water usage, when compared to a home owner in established housing.

The concept of 'postage stamp pricing' does not apply to homebuyers in greenfield areas, while it does apply to homebuyers of established housing in higher income areas. Given that this person is likely to be in a lower socio-economic status than many people in established housing, it is hardly equitable pricing of an essential service.

We note that Sydney Water itself admits the likelihood of this outcome (on page seven of its submission) where it says:

> To the extent that developer charges are passed on to the owners of new dwellings, higher charges therefore increase the disparity between existing owners (who pay uniform prices for water and wastewater) and new dwelling owners that pay both the water and wastewater prices and developer charges.

The example give above is not in any way contrived. Table 1 is a list of the current Sydney Water developer charges for water supply, while table 2 is a list of developer charges for sewerage. A typical greenfield development will need to pay both a charge from table 1 and a charge from table 2 for each lot.

[6] Calculated assuming an interest rate of 8.67 per cent and a 30 year repayment period. If the home buyer borrows $450,000 the monthly repayment would be $3,515 a month with a total nominal value of repayments of $1,265,400 over the life of the loan. If they borrowed $460,840 the monthly repayment rises to $3,600 a month, with total nominal repayments being $1,296,000.

Table 4: 2007-08 Sydney Water Developer Charges for an Equivalent Tenement (ET) as at 20 November 2007

Water Development Servicing Plan	**$ /ET**
Appin Wilton Douglas Park	$3,034
Avon	$2,419
Beecroft - West Pennant Hills	$498
Cascades	$6,639
Cecil Park	$2,117
Dural	$2,897
Engadine	$2,834
Frenchs Forest to Terrey Hills	$211
Helensburgh	$10,549
Hornsby Heights - Berowra	$3,426
Liverpool	$1,421
Lucas Heights	$1,473
Minchinbury	$2,523
Mobbs Hill	$73
Narellan	$666
Nepean	$5,604
North Richmond	$3,646
Orchard Hills	$2,234
Parklea - Marayong (No Recycled)	$3,712
Parklea - Marayong (Recycled)	$1,729
Pleasure Point	$14,456
Prospect Hill Elevated	$54
Rogans Hill - Castle Hill (No Recycled)	$2,454
Rogans Hill - Castle Hill (Recycled)	$1,143
Ryde Gravity	$1,000
Wahroonga	$329
Warringah	$2,032

Table 5: 2007-08 Sewerage Developer Charges for an Equivalent Tenement (ET) as at 20 November 2007

Water Development Servicing Plan	**$ /ET**
COOS	$1,027
Gerringong	$13,491
Glenfield	$1,510
Glenmore Park	$4,421
Hornsby Heights	$6,697
Kiama	$9,196
Kurnell	$4,740
Liverpool	$8,376
Narrabeen	$188
North Richmond	$7,194
Penrith	$4,306
Picton (RETIC)	$13,823
Picton (NO RETIC)	$7,900
Pleasure Point	$28,190
Quakers Hill	$1,553
Richmond	$10,076
Rouse Hill	$4,980
Shellharbour	$9,803
St Marys	$3,872
Warriewood	$6,437
West Camden	$6,247
West Hornsby	$6,950
Winmalee	$20,328
Wollongong	$2,510

5.2 What is the alternative to the charge?

Sydney Water says (in page 7 of their submission) that they receive an average of around $50 million per year in developer charges.

Sydney Water (on page 8 of their submission) says that:

> [i]f Sydney Water had not received any developer charges since 2000-01, annual prices for water and wastewater would be around two per cent higher than presently charged. Because of the relationship between developer charges and the RAB [regulatory asset base], Sydney Water is financially neutral to the form of cost recovery applied to new developments.

We agree with some of the key points we understand Sydney Water to be making in its submission:

- The developer charge is not effective at signalling the cost of servicing new developments.[7]
- The costs of administration of the current regime may be disproportionate to the revenue raised by the scheme. [8]
- The charge for capital should not be inflated above the actual efficient costs incurred by Sydney Water. [9]
- Higher developer charges reduce the regulatory asset base and hence annual water and wastewater prices. The overall effect is to transfer costs from existing properties to new developments.[10]

The Urban Taskforce does not support changes that will generally increase levies or charges on the developments, or a significant portion of developments.

The principles underlying these charges effectively place the buyers of new property assets outside of the 'postage stamp' pricing system for water. Any increase in these charges for a significant class of new property assets (including a regional class) will be a further extension of the discrimination.

For example, we do not believe that new apartment buyers in the Inner West or Sydney South should be forced to pay more for their water (through a new DSP charge) than residents of a higher socio-economic status in more expensive existing free-standing homes.

We submit that the incorporation of all of the costs of growth into the postage stamp prices of all Sydney water users is a more equitable system of meeting these costs, removing the economic distortion that charge creates and facilitates meeting the government's public policy objectives.

We note that Sydney Water itself proposes "a cap or uniform reduction on developer charges in the new growth areas".

If the IPART does not support our primary proposal (that the DSP charge be set at zero) then it is essential that the DSP charges be reduced, to ensure that development in greenfield areas is not discouraged by the charges. However, this should not be used as an excuse for increases in charges on brownfield development – such a move will unfairly result in lower and middle income apartment buyers in the inner and middle ring suburbs being placed outside the 'postage stamp' price system applicable to higher income residents in the same areas.

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[7] Page 17.
[8] Page 17.
[9] Page 20.
[10] Page 21.

6. Further information

The Urban Taskforce is available to further discuss the issues outlined in this submission.

Please contact:

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